FOCUS GOLD Corp
Form 10-Q
October 15, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

S QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2012

£ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from to

Commission File No. 00-52720

FOCUS GOLD CORPORATION

(Exact Name of Small Business Issuer as Specified in Its Charter)

Nevada 26-4205169

(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

4695 MacArthur Court, STE 1430, Newport Beach, CA 92660	(647) 348-4300
(Address of Principal Executive Offices)	(Issuer's Telephone Number)

(Former Name or former address, if changed since last report.)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes **x** No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes **x** No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	£	Accelerated filer	£
Non-accelerated filer	£	Smaller reporting company	S

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes £ No **x**

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS

DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes £ No £

The number of shares outstanding of the Issuer’s Common Stock as of October 10, 2012 was 123,850,249.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

In the opinion of management, the accompanying unaudited financial statements included in this Form 10-Q reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of operations for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

FORWARD LOOKING STATEMENTS

When used in this Report, the words “may,” “will,” “expect,” “anticipate,” “continue,” “estimate,” “intend,” and similar expres are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) regarding events, conditions and financial trends which may affect the Company’s future plans of operations, business strategy, operating results and financial position. Such statements are not guarantees of future performance and are subject to risks and uncertainties and actual results may differ materially from those included within the forward-looking statements because of various factors.

The following discussion and analysis should be read in conjunction with our financial statements and the notes associated with them contained elsewhere in this Report. This discussion should not be construed to imply that the results discussed in this Report will necessarily continue into the future or that any conclusion reached in this Report will necessarily be indicative of actual operating results in the future. The discussion represents only the best assessment of management.

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FOCUS GOLD CORPORATION

(An Exploration Stage Company)

Condensed Consolidated Balance Sheets

(unaudited)

ASSETS

	August 31, 2012	February 29, 2012
Current Assets		
Cash and cash equivalents	$3,075	$85,436
Taxes and other amounts receivable	78,734	99,173
Prepaid expenses	468,615	907,749
Total Current Assets	550,424	1,092,358
Equipment	12,846	12,904
Mineral property rights	9,436,161	12,278,040
Other long term assets	45,719	150,514
Total Assets	$10,045,150	$13,533,816
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$994,167	$757,627
Accounts payable and accrued expenses - related	455,829	286,506
Notes payable, net of discounts	915,466	1,133,468
Derivative liabilities	1,516,749	–
Mineral option payment liability	571,414	571,259
Total Current Liabilities	4,453,625	2,748,860
Long-Term Debt		
Mineral option payment liability	171,632	334,468
Total Liabilities	4,625,257	3,083,328
Contingencies and Commitments	–	–
Stockholders' Equity		
Preferred stock, $0.00001 par value, 100,000,000 shares authorized and none issued and outstanding as of August 31, 2012 and February 29, 2012	–	–
Common stock, $0.00001 par value, authorized 250,000,000 shares, 123,850,249 shares issued and outstanding as of August 31, 2012, 99,025,004 shares issued and outstanding as of February 29, 2012	1,238	990
Additional paid-in capital	18,065,333	17,400,992

Accumulated other comprehensive income (loss)	(39,997)	(52,110)
Accumulated deficit prior to exploration stage	(414,284)	(414,284)
Accumulated deficit during exploration stage	(12,271,981)	(6,554,144)
Treasury stock	(129,200)	–
Total Focus Gold Corporation Equity	5,211,109	10,381,444
Non-controlling Interest in Consolidated Subsidiary	208,784	69,044
Total Stockholders' Equity	5,419,893	10,450,488
Total Liabilities and Stockholders' Equity	$10,045,150	$13,533,816

The accompanying notes are an integral part of these condensed consolidated financial statements

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FOCUS GOLD CORPORATION

(An Exploration Stage Company)

Condensed Consolidated Statements of Operations

(unaudited)

	For the Three month period ended August 31,		For the Six month period ended August 31,		For the period October 1, 2010 (Entry into Exploration Stage) to August 31,
	2012	2011	2012	2011	2012
Revenues	$–	$–	$–	$–	$–
Operating Expenses					
Exploration expense	23,102	242,889	100,467	771,767	1,166,928
Mineral property impairment	2,841,880		2,841,880		2,841,880
General & administrative expenses	704,983	1,033,996	1,380,308	2,044,140	6,133,881
Total Operating Expenses	3,569,965	1,276,885	4,322,655	2,815,907	10,142,689
Other Income (Expenses)					
Interest income	–	12,351	–	19,734	27,348
Amortization of debt discount	(354,031)	(26,749)	(787,730)	(53,586)	(942,164)
Interest and financial fees	(109,060)	(65,631)	(1,330,962)	(65,631)	(1,830,903)
Change in derivative liabilities	(865,227)	–	226,804	–	226,804
Gain on extinguishment of debt	389,325	–	389,325	–	280,665
Loss on settlement	(111,736)	–	(111,736)	–	(111,736)
Total Other Income (Expenses)	(1,050,729)	(80,029)	(1,614,299)	(99,483)	(2,349,986)
Net Loss	$(4,620,694)	$(1,356,914)	$(5,936,954)	$(2,915,390)	$(12,492,675)
Net loss attributable to non-controlling interest	218,098	–	219,119	–	220,694
Net Loss Attributable to Focus Gold Stockholders	$(4,402,596)	$(1,356,914)	$(5,717,835)	$(2,915,390)	$(12,271,981)
Basic and Diluted Net Loss Per Share	$(0.04)	$(0.03)	$(0.05)	$(0.03)	
Weighted average number of shares outstanding, basic and diluted	110,895,450	61,763,120	105,376,203	61,087,567	

The accompanying notes are an integral part of these condensed consolidated financial statements

FOCUS GOLD CORPORATION

(An Exploration Stage Company)

Condensed Consolidated Statements of Cash Flows

(unaudited)

	For the Six month period ended August 31, 2012	2011	For the period October 1, 2010 (Entry into Exploration Stage) to August 31, 2012
Cash Flows from Operating Activities			
Net Loss	$(5,936,954)	$(2,915,390)	$(12,492,675)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation expense	–	889	3,432
Amortization of debt discount	787,730	53,586	942,164
Non-cash interest and financial fees	1,330,962	–	1,796,114
Change in derivative liabilities	(226,804)	–	(226,804)
Gain on settlement of debt	(389,325)	–	(280,666)
Loss on settlement	111,736		111,736
Stock based compensation	–	906,100	1,812,200
Mineral property impairment	2,841,880	–	2,841,880
Common stock issued for services	13,926	–	438,064
Change in operating assets and liabilities:			
Decrease/ (Increase) in taxes and other amounts receivable	20,439	(153,729)	26,265
Decrease in prepaid expenses	543,928	148,392	771,488
Increase in accounts payable and accrued expenses	236,540	311,921	611,062
Increase in accounts payable and accrued expenses - related	272,255	(17,888)	397,149
Net Cash Used in Operating Activities	(393,687)	(1,666,119)	(3,248,591)
Cash Flows Used by Investing Activities			
Pre-acquisition loans to subsidiary	–	(350,000)	(595,348)
Purchase of equipment	–	(1,245)	(5,065)
Cash acquired in acquisition	–	–	73,351
Mineral option payment liability	(200,000)	(200,000)	(400,000)
Net Cash Used in Investing Activities	(200,000)	(551,245)	(927,062)

Cash Flows Provided by Financing Activities			
Proceeds from the sale of common stock	–	1,697,720	2,846,169
Proceeds from notes payable	506,531	200,000	1,379,714
Net Cash Provided by Financing Activities	506,531	1,897,720	4,225,883
Net Increase (Decrease) in Cash	$(87,156)	$(319,644)	$50,230
Foreign currency translation adjustment	4,795	(2,342)	(47,161)
Cash and Cash Equivalents at Beginning of Period	$85,436	$329,746	$6
Cash and Cash Equivalents at End of Period	$3,075	$7,760	$3,075
Cash paid for			
Interest	$–	$–	$–
Income Taxes	$–	$–	$–

The accompanying notes are an integral part of these condensed consolidated financial statements

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FOCUS GOLD CORPORATION

(An exploration stage company)

Notes to Condensed Consolidated Financial Statements

For the three and six month periods ended August 31, 2012 and 2011

1. Organization and Description of Business

Focus Gold Corporation (the "Company") was incorporated on December 23, 2005 under the laws of the state of Nevada under the name Real Estate Referral Center Inc. On April 21, 2009, the Company changed its name to Gold Bag, Inc. and effective June 6, 2011 to Focus Gold Corporation. Since inception through April 2009, the Company's principal business was the matching of real estate customers with realtors in Canada through its website and word-of mouth contacts. In April 2009, the Company relocated to the United States of America and changed its business plan to purchase gold coins, broken jewellery or other items containing precious metals. On May 22, 2009 the Company effected a forward stock split on a 10:1 basis of its stock. In October 2010 the Company entered into an option agreement with Victoria Gold Inc. for the right to explore and purchase mineral claims located in Ontario Canada and since that time the Company's principal business has been the acquisition and exploration of mineral resources. The Company is considered an exploration stage company and its financial statements are presented in a manner similar to a development stage company as defined in FASC 915-10-05, and interpreted by the Securities and Exchange Commission for mining companies in Industry Guide 7.

On December 31, 2010, the Company acquired 100% ownership of Fairfields Gold S.A. de CV, a Mexican corporation involved in the exploration and expansion of its mineral properties. On October 25, 2011, the Company completed on the acquisition of 98.65% ownership of Metallum Resources Plc., an England &Wales corporation which is also involved in the exploration and expansion of its mineral properties. The Company has not presently determined whether its properties contain mineral reserves that are economically recoverable.

All significant intercompany accounts and transactions are eliminated in consolidation.

2. Significant accounting policies

This summary of significant accounting policies of the Company is presented to assist in understanding the Company's financial statements. This condensed summary should be read in conjunction with the disclosure of accounting policies in the Company's audited financial statements for the year ended February 29, 2012

(a) Mineral Properties, Leases and Exploration and Development Costs

The Company accounts for mineral properties in accordance with ASC 930: *Extractive Activities-Mining*. Costs of acquiring mineral properties and leases are capitalized by project area upon purchase of the associated claims (see Note 4). Mineral properties are periodically assessed for impairment of value and any diminution in value.

The Company accounts for mineral exploration and development costs in accordance with ASC 932: *Extractive Activities*. All exploration expenditures are expensed as incurred, previously capitalized costs are expensed in the period the property is abandoned. Expenditures to develop new mines, to define further mineralization in existing ore bodies, and to expand the capacity of operating mines, are capitalized and amortized on units of production basis over proven and probable reserves.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the mineral property or to exploration costs as applicable. If payments received exceed the capitalized cost of the mineral property or the exploration costs incurred, the excess is recognized as income in the year received.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

FOCUS GOLD CORPORATION

(An exploration stage company)

Notes to Condensed Consolidated Financial Statements

For the three and six month periods ended August 31, 2012 and 2011

(b) Derivative instruments

Derivative instruments consist of common stock warrants and certain instruments embedded in certain notes payable and related agreements. These financial instruments are recorded in the balance sheets at fair value as liabilities. Changes in fair value are recognized in earnings in the period of change.

(c) Impairment of long-lived assets

The Company reviews and evaluates its long-lived assets for impairment at each balance sheet date and documents such impairment testing. The tests include an evaluation of the assets and events or changes in circumstances that would indicate that the related carrying amounts may not be recoverable. Mineral properties in the exploration stage are monitored for impairment based on factors such as the Company's continued right to explore the area, exploration reports, assays, technical reports, drill results and the Company's continued plans to fund exploration programs on the property, whether sufficient work has been performed to indicate that the carrying amount of the mineral property cost carried forward as an asset will not be fully recovered, even though a viable mine has been discovered.

The tests for long-lived assets in the exploration, development or producing stage that would have a value beyond proven and probable reserves would be monitored for impairment based on factors such as current market value of the mineral property and results of exploration, future asset utilization, business climate, mineral prices and future undiscounted cash flows expected to result from the use of the related assets. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated future net undiscounted cash flows expected to be generated by the asset, including evaluating its reserves beyond proven and probable amounts.

The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable either by impairment or by abandonment of the property. The impairment loss is calculated as the amount by which the carrying amount of the assets exceeds its fair value. While the Company incurred losses from operations, these losses have not been in excess of planned expenditures on the specific mineral properties in order to ultimately realize their value.

During the three months ended August 31, 2012, the Company recorded an impairment charge on its Metallum properties. See Note 4.

(d) Stock-based compensation

The Company accounts for stock based compensation to employees as required by ASC 718: *Compensation-Stock Compensation* and stock based compensation to nonemployees as required by ASC 505-50: *Equity-Based Payments to Non-Employees*. Options and warrants are valued using the Black-Scholes pricing model. The offset to the recorded stock based compensation cost is to additional paid-in capital. Consideration received on the exercise of stock options is recorded as share capital and additional paid-in capital and the related additional paid-in capital is transferred to share capital.

(e) Warrants

The Company accounts for warrants issued in conjunction with stock issuances under private placement using the fair value method. Under this method, the value of warrants issued is measured at fair value at the grant date using the Black-Scholes valuation model and recorded as share capital and additional paid-in capital.

The Company recognized the value of detachable warrants issued in conjunction with issuance of the convertible debenture using the Black-Scholes pricing model. The Company recorded the relative fair value of the warrant as an increase to additional paid-in capital and discount against the related debt. The discount attributed to the value of the warrants is being amortized over the term of the underlying debt instrument.

(f) Recent accounting pronouncements

FOCUS GOLD CORPORATION

(An exploration stage company)

Notes to Condensed Consolidated Financial Statements

For the three and six month periods ended August 31, 2012 and 2011

In May 2011, the FASB issued Accounting Standards Update No. 2011-04 (ASU No. 2011-04) “Fair Value Measurement” (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. As a result of the new guidance, U.S. GAAP and the IFRSs have the same definition and meaning of fair value and the same substantive disclosure requirements about fair value measurements (with minor differences in wording and style). ASU No. 2011-04 amends Topic 820 in two ways. Specifically, some of the amendments clarify how to apply the existing fair value measurement and disclosure requirements, while some of the amendments change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. ASU No. 2011-04 and IFRS 13 do not extend the use of fair value accounting, but rather provide guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or the IFRS. ASU No. 2011-04 supersedes much of the guidance in ASC Topic 820, but also clarifies existing guidance and changes certain wording in order to align ASC Topic 820 with IFRS 13. IFRS 13 provides, for the first time, a precise definition of fair value and a single source of fair value measurement requirements, disclosure requirements, and related guidance for use across the IFRSs. The Company’s adoption of this policy did not have a material effect on the Company’s consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No 2011-05 (ASU No 2011-05), “Comprehensive Income (Topic 220): Presentation of Comprehensive Income”. ASU 2011-05 eliminates the option that permits the presentation of other comprehensive income in the statement of changes in equity and requires presenting components of net income and comprehensive income in either a one-statement approach with totals for both net income and comprehensive income, or a two-statement approach where a statement presenting the components of net income and total net income must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The guidance provided in ASU No. 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, which updates the guidance in ASC Topic 350, “Intangibles – Goodwill & Other” (ASU-2011-08). The amendments in ASU 2011-08 permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary.

The amendments in ASU 2011-08 include examples of events and circumstances that an entity should consider in evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, however the examples are not intended to be all-inclusive and an entity my identify other relevant events and circumstances to consider in making the determination. The examples in this ASU 2011-08 supersede the previous examples under ASC Topic 350 of events and circumstances an entity should consider in determining whether it should test for impairment between annual tests, and also supersede the examples of events and circumstances that an entity having a reporting unit with a zero or negative should consider in determining whether to perform the second step of the impairment test. Under the amendments in ASU 2011-08, an entity is no longer permitted to carry forward its detailed calculation of a reporting unit's fair value from a prior year as previously permitted under ASC Topic 350. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-08 did not expected to have a material impact on the Company's financial position or results of operations.

In December 2011, the FASB issued ASU No. 2011- 12, “Comprehensive Income – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05” (“ASU 2011-12”). ASU 2011-12 defers changes in Update 2011-05 that relate to the presentation of reclassification adjustments. ASU 2011-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 (November 30, 2012 for the Company). The adoption of ASU 2011-12 did not have a material impact on our results of operations, financial condition, or cash flows.

FOCUS GOLD CORPORATION

(An exploration stage company)

Notes to Condensed Consolidated Financial Statements

For the three and six month periods ended August 31, 2012 and 2011

The Company has implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the financial statements unless otherwise disclosed, and the Company does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations

(g) Going concern

The Company's financial statements are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America, and have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company incurred a net loss of $5,717,835 during the six month period ended August 31, 2012, and has an accumulated deficit of $12,271,981 since entry into the exploration stage. Additionally, the Company is in default of various notes aggregating $895,408. The Company changed its principal business to the development and exploitation of mineral properties in October 2010, but has not yet established an ongoing source of revenues sufficient to cover its operating costs and to allow it to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease development of operations.

In order to continue as a going concern, develop a reliable source of revenues, and achieve a profitable level of operations the Company will need, among other things, additional capital resources. Management’s plans to continue as a going concern include raising additional capital through sales of common stock and or a debt financing. However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

(h) Fair value measurements.

The FASB's Accounting Standards Codification defines fair value as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants and requires that assets and liabilities carried at fair value are classified and disclosed in the following three categories:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active or inactive markets and valuations derived from models where all significant inputs are observable in active markets.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are unobservable in any market.

Given the conditions surrounding the trading of the Company's equity securities, the Company values its derivative instruments related to embedded conversion features and warrants from the issuance of convertible debentures in accordance with the Level 3 guidelines. For the six month period ended August 31, 2012, the following table reconciles the beginning and ending balances for financial instruments that are recognized at fair value in these condensed consolidated financial statements. The fair value of warrants and embedded conversion features that have exercise reset features are estimated using an adjusted Black-Scholes model based on the Company's estimation of the likelihood of the occurrence of a reset.

FOCUS GOLD CORPORATION

(An exploration stage company)

Notes to Condensed Consolidated Financial Statements

For the three and six month periods ended August 31, 2012 and 2011

	Balance at February 29, 2012	New Issuances	Changes in Fair Values	Balance at August 31, 2012
Level 3 – Derivative liabilities from:				
Conversion features	$ –	$1,325,021	$(582,284)	$742,737
Warrants	–	418,531	355,481	774,012
	$ –	$1,743,552	$(226,803)	$1,516,749

Changes in the unobservable input values would likely cause material changes in the fair value of the Company's Level 3 financial instruments. The significant unobservable input used in the fair value measurement is the estimation of the likelihood of the occurrence of a change to the contractual terms of the financial instruments. A significant increase (decrease) in this likelihood would result in a higher (lower) fair value measurement.

(i) Reclassification of Certain Securities under FASB ASC 815-40

If the Company were required to settle its outstanding warrants and convertible debt as of August 31, 2012, the Company would be required to issue 182,035,039 common shares (103,093,891 for the settlement of warrants and 78,941,148 for the settlement of outstanding convertible debt). The Company determined that the settlement of these outstanding financial instruments would exceed its authorized shares by 55,885,288 common shares. Pursuant toFASB ASC 815-40, Accounting for Contracts in Entity's Own Equity, the Company would be required to reclassify these contracts from equity to liabilities. As permitted by EITF 00-19, the Company's policy with regard to settling outstanding financial instruments is to settle those with the earliest maturity date first which essentially sets the order of preference for settling the financial instruments. As a result of the Company's policy of settlement the Company determined that the changes in fair value for financial instruments initially recorded in equity were not required to be reclassified in the quarter ended August 31, 2012.

3. Disposition of Interest in Subsidiary

On August 24, 2012, the Company settled the amount of $70,629 of amounts payable in exchange for 280,000 common shares of the Company’s subsidiary Celtic. The Company recognized a gain of $44,041 on this transaction. The 280,000 shares of common stock transferred in this settlement represent 1.06% of the issued and outstanding shares of common stock of Celtic.

Effective July 1, 2012, the Company settled the amount of $47,303 of amounts payable in exchange for 440,000 common shares of the Company’s subsidiary Celtic and in consideration of the surrender of 3,400,000 shares of the Company’s common stock with a fair value of $129,200, 1,360,000 shares of Celtic owned by the Company. The Company recognized a loss of $111,736 on the disposition of the 1,800,000 common shares of Celtic’s common stock transferred by the Company in this transaction. The 1,800,000 shares of common stock transferred in this settlement represent 6.79% of the issued and outstanding shares of common stock of Celtic.

As at August 31, 2012, the Company has a 92.16% interest in Celtic.

4. Mineral property rights

The continuity of expenditures on mineral property acquisitions is as follows:

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FOCUS GOLD CORPORATION

(An exploration stage company)

Notes to Condensed Consolidated Financial Statements

For the three and six month periods ended August 31, 2012 and 2011

Mineral property	February 29, 2012	Additions	Disposals and Impairments	August 31, 2012
Canada				
Watabeag, Russell Creek,	$50,000	$ –	$–	$50,000
Mexico				
Huicicila	6,086,002	–	–	6,086,002
United Kingdom & Ireland				
Metallum Claims	6,142,038	–	(2,841,879)	$3,300,159
	$12,278,040	$ –	$(2,841,879)	$9,436,161

There are no proven reserves on any of the claims or leases which the Company has under option or has an ownership interest in. The Company has interests in the following properties:

(a) Huicicila Claims - Mexico

On November 10, 2010, the Company signed a definitive agreement to acquire Fairfields Gold S.A. de CV. Fairfields owns an option to acquire 100% of the Huicicila gold claims in Nayarit Mexico (see Note 7(b)). The Huicicila claims contain a high grade gold-silver mesothermal vein. The property is located 25 kilometers southeast of Tepic and 10 kilometers northwest of Compostela in the State of Nayarit. The Project is covered by five mining claims with a surface of 1012 hectares.

Since the acquisition at December 31, 2010, the Company through its subsidiary Fairfields has conducted an exploration program to determine the extent of prior workings and mineralization on the property.

(b) Watabeag & Russell Creek Claims – Ontario, Canada

On October 1, 2010 the Company and Victoria Gold Corp. entered into an option agreement (see Note 7(a)) covering 16 gold mining claims in the Province of Ontario. Under the option agreement, the Company has the right to acquire Victoria Gold Corp.'s ownership interest in eight (8) mining claims located in Currie Township, Timmins Mining District, Ontario known as the Watabeag property and eight (8) mining claims located in Bowman Township, Timmins Mining District, Ontario known as the Russell Creek property.

The Watabeag property comprises a total of 131 hectares and is located approximately 60km east of Timmins, Ontario. Exploration on the property began in 1973 with additional drilling in the 80's. Four overburden holes were drilled in 1980 to follow up anomalous gold values. An additional 11 overburden holes were completed in 1981 to define two anomalies with well defined head and tail features. The initial drill hole intersected mixed dacite and feldspar with a brecciated and altered zone assaying 8.9g/t Au across a 0.9m interval.

The Russell Creek property is a total of 128 hectares and is located approximately 70 kilometers east of Timmins. Minor exploration for gold commenced in 1980 when Asarco (Cook Joint Venture) completed ground magnetic and EM surveys in the area of two weak airborne EM conductors. The surveys defined a north west trending fault structure along Russell Creek.

As at August 31, 2012, the Company had not commenced exploration activities on these properties.

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(c) San Nicholas & Santa Fe - Mexico

On February 11, 2011, the Company, through its wholly-owned subsidiary Fairfields entered into an agreement, with the owner of the Santa Fe and San Nicholas mineral claims to acquire an 80% interest in such claims for no cost. The Santa Fe property strategically extends the Company's historic Miravalles Vein. The San Nicolas property includes the caldera border that lies adjacent to the Huicicila property. The properties have a collective surface area of 220 hectares and are being evaluated with the work programs undertaken for the Huicicila Claims.

(d) Focus 1 to 3 - Mexico

During the year ended February 28, 2011, the Company, through its wholly-owned subsidiary Fairfields, staked and applied for additional mineral claims for property contiguous with its Huicicila and San Nicholas and Santa Fe Claims. These claims are pending. The properties have a surface area of 18,289.05 hectares for the Focus 1 claims, 10,850 hectares for the Focus 2 claims and 2,367.78 hectares for the Focus 3 claims. The Company has conducted limited geological work on these claims.

(e) Metallum properties - United Kingdom and Ireland

Includes thirty one exploration licenses in Northern Ireland, Scotland and Ireland covering in excess of 388,000 hectares owned by Metallum, the Company’s 90.80% owned subsidiary. The licenses cover areas of known mineral occurrences and geochemical anomalies in terrain that is geologically prospective for a number of deposit types for a variety of metals. The main emphasis will be on advancing gold and gold-copper targets though there is also the potential for poly-metallic massive sulphides. The Company’s extensive review of data on the Metallum licenses has identified 3 priority areas that will be the focus of initial exploration: Fore Burn, Scotland (gold-copper) (expired); Sperrins, N. Ireland (gold) (gold and silver licenses, expired) and Clogher Valley, Ireland and N. Ireland (base metals).

During the quarter ended August 31, 2012, certain of the licenses held by Metallum had expired and management has determined that there is a material doubt about the renewal or re-acquisition of such licenses and were written down to their fair value of $3,300,159, resulting in an impairment charge of $2,841,879 which was included in operations for the period.

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5. Notes payable

In July 2011, the Company entered into a Demand Promissory Note (the "Note") with a private investor as the lender with the principal amount of $200,000. The Note is payable on demand by the lender after August 30, 2011 and accrues interest at the rate of 2% per month calculated and compounded monthly until maturity. A commitment, arrangement and placement fee of $59,000 is payable at maturity. The commitment, arrangement and placement fee of $59,000 was initially recorded as a discount to the Note. The Note has a provision that if not repaid upon demand within 3 days, the lender may elect to receive as full repayment for the loan in restricted common stock of the Company at the rate of five times the principal divided by the 10 day average closing price of the Company's common stock prior to the date of demand. On March 1, 2012, the Company finalized a settlement agreement with the lender for an amount of $400,000 as full and complete satisfaction of principal, interest, commitment arrangement, placement fees and any other right of the lender under the Note. On March 29, 2012, the Company reached a settlement agreement on its Note, to settle the amount owing at $400,000. The Note was further amended to remove any provisions that allowed for payment of the loan through penalty shares which was replaced with a convertible feature. Under the amendments the Note now bears interest, at the election of the holder at 1%, per month compounded monthly, matures October 1, 2012, and is convertible at any time into shares of the Company's common stock, at the holder's option, at a conversion price, equal to 80% of the average of the three lowest trade prices for the Company's common stock during the 20 trading days prior to the conversion. The holder has agreed to restrict their ability to convert the Note and receive shares of common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of the Company's common stock. No interest or principal payments are required until the maturity date. Principal and interest may be prepaid prior to maturity. The number of shares reserved for issue under the Note is 6,000,000 shares of the Company's common stock. The Company determined that the resulting modifications of the Note was not substantial in accordance with ASC 470-50, "Modifications and Extinguishments", thus modification accounting was applied. The Note has been determined to have a derivative liability related to its conversion feature with a fair value of $457,552 at March 29, 2012. The fair value of the derivative liability was determined using the Black-Scholes option pricing model with the following assumptions: expected life of 0.51 years; volatility of 91.7%; no dividend yield; and a risk free interest rate of 0.14%. The fair value of the derivative liability was recorded as a discount to the debt of $400,000 and $57,552 of interest and financing fees. The discount is being amortized to amortization of debt discount over the term of the Note. The unamortized discount at August 31, 2012 was $30,691. At August 31, 2012, the fair value of the derivative liability on the remaining principal of $93,592 was determined to be $130,408. The fair value of the derivative liability at August 31, 2012 was determined using the Black-Scholes option pricing model with the following assumptions: expected life of 0.09 years; volatility of 91.95%; no dividend yield; and a risk free interest rate of 0.08%. The Company tests the fair value of this derivative liability at each reporting period and records any change in the fair value of the derivative liability to the statement of operations. On June 13, 2012 with the Company's failure to file its Form 10-K for the year ended February 29, 2012, the Company entered into technical default on the Note.

In September 2011, the Company entered into two Demand Promissory Notes (the "Notes") in the aggregate amount of $270,000. The Notes are due upon demand after November 14, 2011 ($200,000) and November 19, 2011 ($70,000) and immediately, upon demand, where the Company is in default or non-compliance under the respective note or default or non-compliance with other parties customarily including but not limited to, insolvency, bankruptcy or judgements against the Company. The Notes bear interest at the rate of 2% per month calculated and compounded monthly and a commitment arrangement and placement fee of $67,500 per month (less interest). The Notes require that the first use of any financing provided to the Company of greater than $200,000 be first used to retire the September 19 Note in whole or in part and greater than $305,000 in the case of the September 14 Note. On June 14 and 19, 2012 the Company entered into a Promissory Note Amending Agreement with the holders of the Notes where by the note holders have agreed to extend the $200,000 promissory note to September 14, 2012 and the $70,000 promissory note to September 19, 2012 and to settle outstanding commitment, arrangement and placement fees of $554,825 in exchange for 4,000,000 shares of the Company's common stock, and eliminate any future commitment, arrangement and placement fees under these promissory notes. In the event of non-payment by the Company a maturity, the holders of the September notes the interest rate on the notes increases to 5% per month and the Company would be required to issue 1,100,000 and 400,000 shared of the Company's common stock respectively in advance for each month of non-payment of the Notes.

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On October 25, 2011, the Company issued a 6% convertible redeemable secured note (the "6% Note") for a principal amount of $100,000. The 6% Note is due and payable October 25, 2012 and accrues interest on the outstanding principal balance at the rate of 6% per annum. The 6% Note is convertible at any time after April 25, 2012, into shares of the Company's common stock at a conversion price that is equal to 70% of the lowest closing bid price of the Company's common stock as reported on the National Quotations Bureau Pink Sheets on which the Company's shares are traded, for any of the five trading days including the day upon which a Notice of Conversion is received by the Company. The Exercise price may be adjusted to a lower amount where within the three business days after the exercise the closing bid for the Company's common stock is 5% lower than the price set out in the notice. At any time, the Company has the option to redeem the 6% Note and pay to the note holder 150% of the unpaid principal amount of the 6% Note, in full. As part of the loan, the Company issued to the note holder 666,666 transferable warrants to purchase one common share per warrant at $0.15 per share for a period of three years. The fair value of the 666,666 warrants was $96,372. The fair value of the warrants was calculated using the Black-Scholes option pricing model with the following assumptions: expected life of 3.0 years; volatility of 126.9%; no dividend yield; and a risk free interest rate of 0.43%. The relative fair value of the warrants was $49,076 and was recorded as a discount to the debt. The unamortized discount at August 31, 2012 was $nil. The 6% Note and accrued interest of $3,914 were fully paid by August 15, 2012 through the conversion of the 6% Note to 5,375,245 shares of the Company's common stock.

On February 17, 2012, Celtic entered into a convertible debenture agreement ("Convertible Debenture") for an amount of $300,000 (Canadian, US$303,183). The Convertible Debenture has a term of 6 months or the earlier of Celtic's RTO on the Toronto Stock Exchange . The Convertible Debenture is secured against the accounts of Celtic, including its accounts, chattel paper, books and records, equipment, instruments, intangibles, inventory, money, proceeds, securities and undertakings and is guaranteed by Celtic and its subsidiaries. The interest rate is 10% accrued daily, compound annually and paid at maturity date. The holder has the right to convert the principal amount outstanding into the common shares of Celtic at the conversion price which is the lower of $0.20 per common share or 25% below the RTO price. As part of the loan, the Company issued to the lender 1,000,000 common share purchase warrants with an exercise price per share equal to the lower of $0.30 (Canadian) and the RTO price for a period of two years and 333,333 common share purchase warrants with an exercise price per common share equal to $0.45 (Canadian) for a period of two years. The relative fair value of the 1,333,333 warrants and the debt at February 17, 2012 was determined to be $120,246 and $182,937 respectively. The fair value of each warrant issued was calculated using the Black-Scholes option pricing model with the following assumptions: expected life of 2.33 years; volatility of 90.7%; no dividend yield; and a risk free interest rate of 1.12%. The aggregate relative fair value of the debt and warrant of $303,183 has been amortized to amortization of debt discount over the life of the Convertible Debenture. The Convertible Debenture matured August 17, 2012 without payment to the note holder. The Company is in discussions with the note holder regarding extentions or amendments to the Convertible Debenture.

On March 22, 2012 the Company issued a Convertible Promissory Note to JMJ Financial (“JMJ”) in aggregate principal amount of $2,110,000 (the “JMJ Note”) advanced over time. In consideration for issuing of the JMJ Note and the 2,500,000 warrants, JMJ provided the initial funding of $275,000 (total of $356,000 through August 31, 2012). The JMJ Note bears interest at 10%, matures three years from the date of issuance, is secured by 25% of the Company’s investment property and ownership or other equity interests the Company holds in Focus Celtic Gold Corporation, its wholly owned subsidiary, and is convertible into shares of the Company’s common stock, at JMJ’s option, at a conversion price, equal to 80% of the average of the three lowest trade prices for the Company’s common stock during the 20 trading days prior to the conversion. The Note was issued with a 10% original issue discount. The original issue discount of $39,556 is being accreted to interest and financing fees over the remaining term of the note. JMJ has agreed to restrict their ability to convert the JMJ Note and receive shares of common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of the Company’s common stock. No interest or principal payments are required until the maturity date. The Note may be prepaid at any time prior to Maturity Date at 150%. The 2,500,000 warrants issued to JMJ entitle JMJ to purchase up to 2,500,000 shares of the Company’s common stock at $0.20 per share, subject to adjustment maintain an aggregate exercise price of $500,000. The 2,500,000 common share purchase warrants may in certain circumstances be exercised in whole or part in a cashless exercise equal to the difference between the VWAP on the trading day immediately preceding the date on which the holder elects to exercise the warrant and the exercise price of the warrant times the number of warrants so being exercised. The warrant exercise price may be adjusted to a lesser amount than $0.20 where at any time while the warrant is outstanding and the Company sells or grants an option to purchase or sell or grant any right to re-price, or issue and share of common stock or security convertible into the Company’s common stock at an effective price less than the $0.20 exercise price, the exercise price shall be reduced to that lesser amount. The warrant is non-transferrable. The Company has determined that the warrants and the convertible feature of the JMJ Note are derivative liabilities with fair values of $418,531 and $804,777 respectively at March 22, 2012. The fair value of the derivative liability was calculated using the Black-Scholes option pricing model with the following assumptions: expected life of 3.0 years; volatility of 102.6%; no dividend yield; and a risk free interest rate of 0.56%. The fair value of the derivative liability was recorded as a discount to the debt of $337,692 and $948,308 of interest and financing fees. The discount is being amortized to amortization of debt discount over the term of the JMJ Note. The unamortized discount at August 31, 2012 was $290,088. At August 31, the fair value of the derivative liability on the warrants and conversion feature was determined to be $774,012 and $612,329 respectively. The fair value of the derivative liability at August 31, 2012 was determined using the Black-Scholes option pricing model with the following assumptions: expected life of 2.55 years; volatility of 89.46%; no dividend yield; and a risk free interest rate of 0.38%. The Company tests the fair value of this derivative liability at each reporting period and records any change in the fair value of the derivative liability to the statement of operations. On June 13, 2012 with the Company’s failure to file its Form 10-K for the year ended February 29, 2012, the Company entered into technical default on the JMJ Note.

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On July 23, 2012 the Company issued a 6% Redeemable Convertible Note (the "GEL Note") to GEL Properties LLC. ("GEL") in the amount of $100,000. The Company received net proceeds of $ 94,485. The GEL Note is due and payable July 23, 2013 and accrues interest on the outstanding principal balance at the rate of 6% per annum. The GEL Note is convertible at any time after January 23, 2013, into shares of the Company's common stock at a conversion price that is equal to 70% of the lowest closing bid price of the Company's common stock as reported on the National Quotations Bureau Pink Sheets on which the Company's shares are traded, for any of the five trading days including the day upon which a notice of conversion is received by the Company. At any time, the Company has the option to redeem the GEL Note and pay to the holder, 150% of the unpaid principal amount of the GEL Note, in full. As part of the loan, the Company issued to the note holder 1,428,571 transferable warrants to purchase one common share per warrant at $0.07 per share for a period of three years. The fair value of the 1,428,571 warrants was $25,738. The fair value of the warrants was calculated using the Black-Scholes option pricing model with the following assumptions: expected life of 3.0 years; volatility of 91.32%; no dividend yield; and a risk free interest rate of 0.34%. The relative fair value of the warrants was $20,470 and was recorded as a discount to the debt. The unamortized discount at August 31, 2012 was $18,283.

On July 19, 2012 the Company's subsidiary Celtic, issued a convertible debenture (the "Debenture") to RYM Capital Corp ("RYM") in the amount of $50,000 Canadian dollars. The Debenture earns compound interest accruing annually at 10% per annum and is due the earlier of (i) 6 months from the date of the Debenture; or (ii) the business day immediately preceding the closing of the reverse take over between the Company's subsidiary Celtic, and Pacific Orient Capital, Inc. The Debenture is secured against the accounts of Celtic, including its accounts, chattel paper, books and records, equipment, instruments, intangibles, inventory, money, proceeds, securities and undertakings and is guaranteed by Celtic and its subsidiaries. RYM has the right to convert the principal amount outstanding into the common shares of Celtic at the conversion price which is the lower of $0.20 (Canadian) per common share or 25% below the RTO price. As part of the loan, the Company issued to the lender 222,222 common share purchase warrants with an exercise price per share equal to the lower of $0.30 (Canadian) and the RTO price for a period of two years. The fair value of the 222,222 warrants and the debt at July 19, 2012 was determined to be $40,809 and $30,050 respectively. The fair value of each warrant issued was calculated using the Black-Scholes option pricing model with the following assumptions: expected life of 2.45 years; volatility of 89.11%; no dividend yield; and a risk free interest rate of 0.31%. The relative fair value of the debt and warrants at July 19, 2012 of $50,531 was recorded as a discount to the debt. The unamortized discount at August 31, 2012 was $38,592 and is being amortized to amortization of debt discount over the life of the Debenture.

6. Share capital

(a) Authorized capital

The Company is authorized to issue:

100,000,000 Preferred shares of stock, $0.00001 par value

250,000,000 Common shares of stock, $0.00001 par value

Share issuances, returns and cancellations during the six month periods ended August 31, 2012 and 2011:

During the six month period ended August 31, 2012, the Company issued 20,825,245 shares of its common stock for the exercise of conversions under the Company’s convertible securities in the amount of $499,089 and 4,000,000 of its common stock as settlement for $554,826 of accrued fees on the Company’s September 14 and 19, 2012 promissory notes.

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During the six month period ended August 31, 2011, the Company received and approved subscriptions for 4,410,750 units at $0.40 per unit for gross proceeds of $1,764,300 less cash issue costs of $66,580 by way of private placement. Each unit consisted of one common share and one-half non-transferable share purchase warrant that entitled the holder to purchase one additional common share at $0.50 per share for a period of one year.

The net proceeds of the financing of $1,679,720 was allocated on a relative fair value basis as $1,444,653 to common shares and $235,067 to warrants. The fair value of each warrant issued was calculated using the Black-Scholes option pricing model with the following assumptions: expected life of 1.0 to 1.25 years; volatility of 84 - 88%; no dividend yield; and a risk free interest rate of 0.18 – 0.23%. In connection with this private placement, the Company's agents received a selling commission of $66,580 of the proceeds of the units sold and 166,450 warrants to purchase an additional share of the Company’s stock for a period of one to three years at $0.40 per share. The fair value of the 166,450 warrants was $41,002. The fair value of each warrant issued was calculated using the Black-Scholes option pricing model with the following assumptions: expected life of 1.0 and 3.25 years; volatility of 84% and 144% respectively; no dividend yield; and a risk free interest rate of 0.25% and 0.71% respectively.

(b) Treasury stock

Pursuant to an agreement dated August 24, 2012 with a former director of the Company, the Company acquired 3,400,000 shares of its common stock at an aggregate purchase price of $129,200. The acquired 3,400,000 shares of the Company’s common stock have been recorded as treasury stock using the cost method.

(c) Stock options

The Company has an incentive share option plan (the "Plan") that it adopted February 7, 2011, that allows it to grant incentive stock options to its officers, directors, employees and other persons associated with the Company. The Plan is intended to advance the best interests of the Company by providing those persons who have a substantial responsibility for its management and growth with additional incentive and by increasing their proprietary interest in the success of the Company, thereby encouraging them to maintain their relationships with the Company. Further, the availability and offering of stock options and common stock under the Plan supports and increases the Company's ability to attract and retain individuals of exceptional talent upon whom, in large measure, the sustained progress, growth and profitability of the Company depends. The board of directors reserved 10,000,000 shares of common stock for issuance under the Plan. As of the fiscal year end, February 29, 2011, the board of directors had granted options to purchase 6,400,000 shares of common stock at $.50 per share to 7 persons. Through the six month period ended August 31, 2012 and 2011, no further grants of options have been made under this plan.

Expiry date	Exercise price per share	Balance February 29, 2012	Granted	Forfeited	Expired/ Cancelled	Balance August, 31 2012
February 24, 2016	$ 0.50	6,400,000	–	–	–	6,400,000
		6,400,000	–	–	–	6,400,000

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All 6,400,000 stock options granted and were exercisable at August 31, 2012.

As the Company does not have historical experience to estimate the expected life of options, the Company used the project development life of its Huicicila concession as its estimate. The $0.28 fair value of each stock option grant in the year ended February 28, 2011 was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: expected life of 2.5 years; volatility of 141%; no dividend yield; and a risk free interest rate of 0.95%. The Company recorded aggregate stock-based compensation expense of $nil ($453,050) for options based on a twelve month service period from January 1, 2011.

(d) Share purchase warrants

The continuity of share purchase warrants is as follows:

Expiry date	Exercise price per share	Balance February 29, 2012	Issued	Exercised	Expired	Balance August 31 , 2012
Class A						
March 1, 2012	$0.40	66,450	–	–	66,450	–
December 19, 2012	$0.15	133,332	–	–	–	133,332
June 12, 2014	$0.40	100,000	–	–	–	100,000
October 14, 2016	$0.50	150,000	–	–	–	150,000
Class B						
April 24, 2012	$0.50	118,419	–	–	118,419	–
April 24, 2012	$0.50	1,446,625	–	–	1,446,625	–
May 24, 2012	$0.50	76,250	–	–	76,250	–
July 20, 2012	$0.50	682,500	–	–	682,500	–
December 15, 2013	$0.25	666,667	–	–	–	666,667

Promissory Note Warrants						
October 25, 2014	$0.15	666,666	–	–	–	666,666
March 22, 2015	$0.20	–	2,500,000	–	–	2,500,000
July 23, 2015	$0.07	–	1,428,571	–	–	1,428,571
Total Warrants Outstanding		4,106,909	3,928,571	–	2,390,244	5,645,236
Weighted average exercise price		$0.39	$0.18	$–	$–	$0.18
Average remaining contractual term (years)						2.44

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The Company has issued the following classes of warrants as set out below:

Class A warrant	Are non-transferrable, exercisable for cash and have no acceleration of the expiry date.
Class B warrant	Are transferrable, each warrant entitles the holder to purchase one additional common share at the exercise price per share set out in the table above, subject to acceleration provisions and with a cashless exercise provision based upon the 20 day volume weighted average price per share at closing day (VWAP) the day prior to exercise. Holders of warrants electing cashless exercise will receive that number of shares equal to the 20 day VWAP minus the exercise price divided by the 20 day VWAP multiplied by the number of warrants exercised.

Promissory Note Warrants

October 24, 2014 & July 19, 2015	Are transferrable and entitles the holder to purchase one additional common share for a period of three years. In lieu of the cash payment the holder has the right to convert this warrant in whole or in part without payment of any kind into that number of shares of common stock of the Company equal to the quotient obtained by dividing the aggregate of the closing price of the Company’s common stock on the day immediately preceding the conversion less the aggregate purchase price of the shares being exercised divided by the closing price of the Company’s common stock on the day immediately preceding the conversion.

March 22, 2015	Transferable with the approval of the Company. At any time after September 22, 2012, in lieu of the cash payment the holder has the right to convert this warrant in whole or in part without payment of any kind into that number of shares of common stock of the Company equal to the quotient obtained by dividing the aggregate of the VWAP price of the Company’s common stock on the day immediately preceding the conversion less the aggregate purchase price of the shares being exercised divided by the VWAP of the Company’s common stock on the day immediately preceding the conversion. The March 22, 2015 warrants provide the warrant holder with down round protection where the Company issues any shares or grants and warrant or convertible security or re-prices a security at less than the effective exercise price of the March 22, 2015 warrant at that time, then the effective exercise price shall be lowered to such lesser amount.

During the six month period ended August 31, 2012, the Company approved unit subscriptions and warrant commissions for an aggregate of nil (2011- 166,640) Class A warrants and nil (2011 – 2,205,375) Class B warrants as part of a private placement of units.

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(e) Class A Options

The continuity of Class Options is as follows:

Expiry date	Exercise price per share	Balance February 29, 2012	Issued	Exercised	Expired	Balance August 31 , 2012
December 31, 2012						